
Revenue and Budget Update

Greater Phoenix Chamber of Commerce

November 6, 2017

JLBC

Key Points

- ❑ '17 revenue growth was below budget; consensus foresees trend continuing
- ❑ New forecast results in projected Baseline cash shortfalls:
 - '18 = \$(24) M
 - '19 = \$(80) M

How Did We End Up with a Projected Shortfall?

- ❑ '18 General Fund budget balance had little margin for error – 0.4%
- ❑ At that rate, small forecast shortfall easily pushes us negative
- ❑ 1% variance in forecast yields \$635 M over 3 years

The Shortfall Could Be Eliminated if . . .

- ❑ Projected revenue growth improves slightly (signals are mixed)

The Shortfall Could Be Worse if . . .

- ❑ We continue \$90 M of 1-time '18 spending in '19

Revenue Forecast

'17 – Slowest Growth Since '10

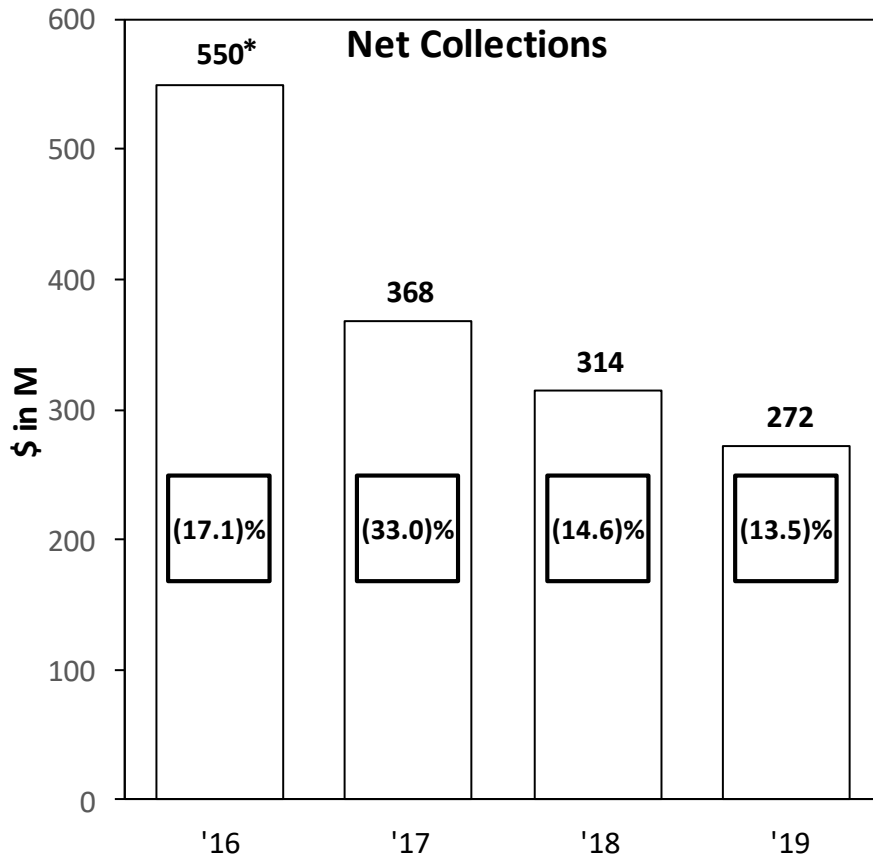
	<u>'17 Actual</u>	<u>Forecast Error</u> <u>(\$ in M)</u>
Sales/TPT	4.5%	55
Individual Income	4.1%	12
Corporate Income	(35.5)%	(52)
Insurance Premium	2.8%	(11)
Unclaimed Property/Other	(2.9)%	(23)
Overall	1.5%	(19)

- ❑ '17 Revenues were \$(19) M below forecast; would have been positive \$33 M without Corporate
- ❑ 4.0% growth in 1st Quarter of '18, \$17 M above forecast

Revenues exclude fund transfers and urban revenue sharing

Corporate Loss \$52 M Higher Than Expected

- Forecast was \$420 M, ended at \$368 M



- Corporate audit collections declined by \$(27) M
- Flat profit growth may have also contributed to loss
- '18 collections lowest since '93

* Excludes tax amnesty collections

Consensus: Modest Growth Through '21

October Consensus Forecast

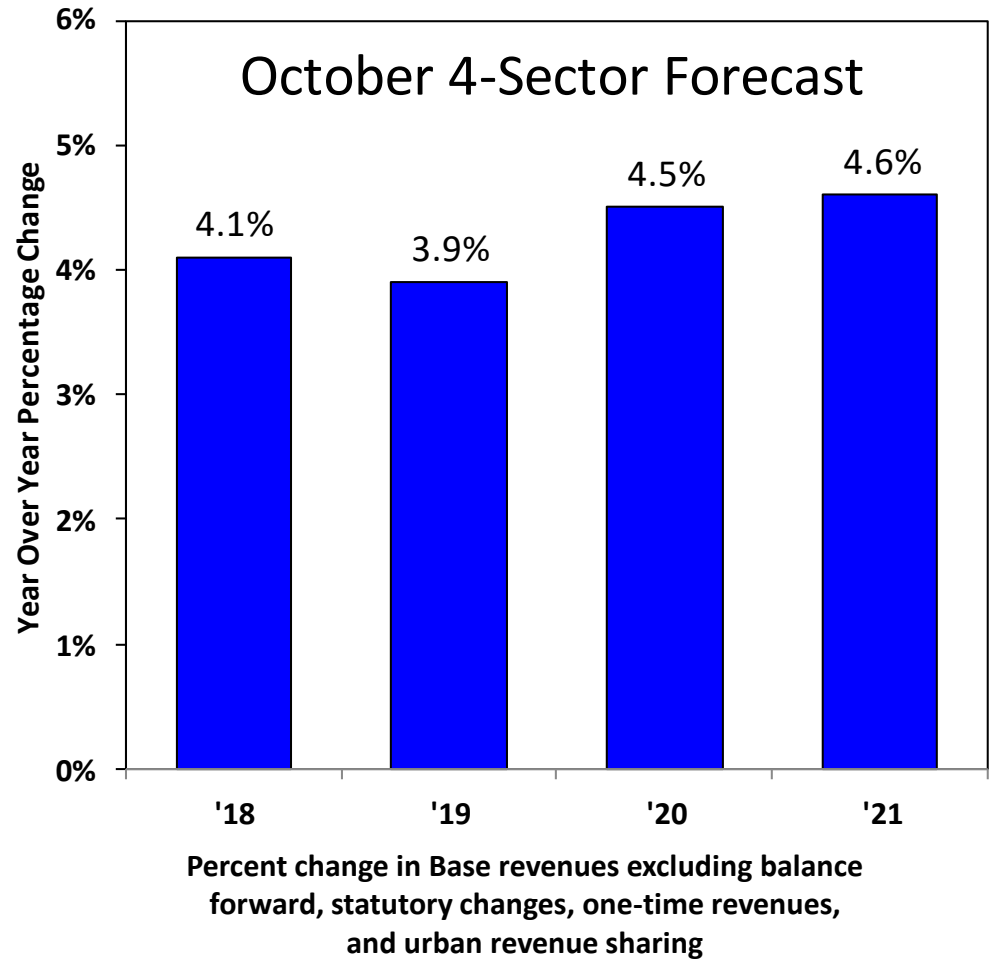
- Finance Advisory Committee
- UA model – base
- UA model – low
- JLBC Staff

Chance of Exceeding Forecast

- 60%

Long Run Average Growth

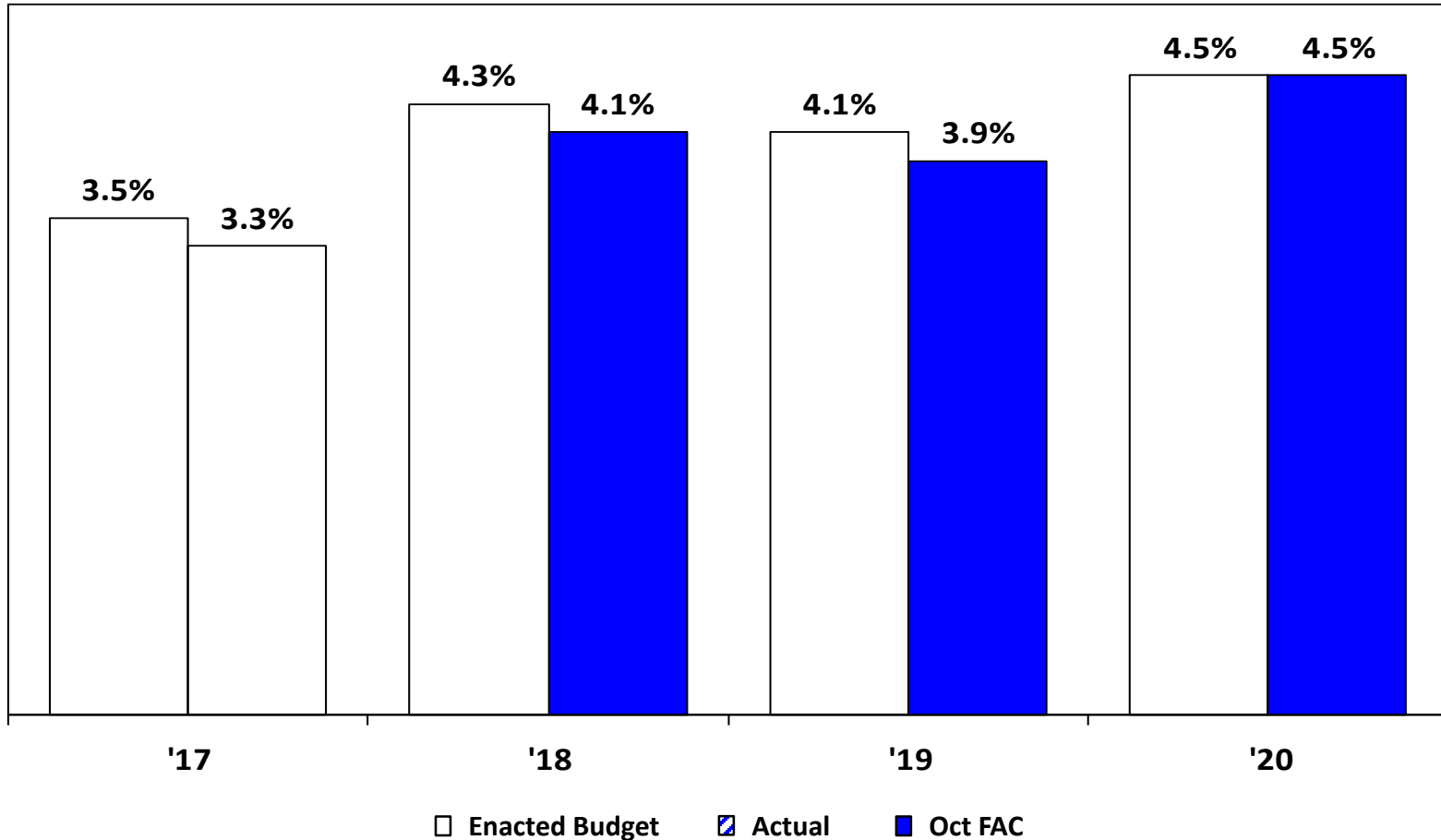
- 4.6%



'18 & '19 Forecast Below Enacted Budget

- Primary Reason for Projected Shortfalls

Base Revenue Growth Rate *



Forecasted Net '19 Revenue Growth is 3.3%

- Net Growth Adjusts Base for Transfers & Tax Cuts

\$ in M

	'18	'19	'20	'21
Base Revenue Growth (4.1%/3.9%/4.5%/4.6%)	414	397	482	514
Loss of 1-Time Fund Transfers	(137)	(8)	0	0
Previously Enacted Tax Legislation	(117)	(75)	(6)	(6)
Urban Revenue Sharing	(17)	6	(19)	(16)
Total	143	320	457	492
% Change	1.5%	3.3%	4.6%	4.7%
Total Resources (\$ in B)	9.65	9.97	10.42	10.91

Excludes Change in Beginning Balance

Comparison of '16 vs '17 Tax Credits

- Includes Individual, Corporate and Insurance

	\$ in M		
<u>Credit</u>	<u>'16</u>	<u>'17</u>	<u>\$ Change</u>
School Tuition Organizations	155	161	6
Public School Extracurricular	46	46	0
Research & Development	109	109	0
Charitable Organizations	37	71	34
Renewable Energy/Solar	15	15	0
New Employment	9	12	3
Other	26	26	0
Total	397	440	43

Spending Forecast

'18 – '21 Baseline Spending Projections

- Reflects changes to active statutory and other funding formulas - no discretionary additions
- Continues annual suspension of \$513 M of inactive formulas and \$931 M K-12 Rollover
- Excludes conversion to K-12 A-F grades – \$11 M?
- Baseline includes no '19 HURF shift as agreed to in last year's budget

Projected Baseline Spending Increases by \$226 M

- '19 Statutory Spending Offset by Elimination Of 1-Times

Spending Above Prior Year

	\$ in M
	<u>'19</u>
ADE – K12 Formula	148
AHCCCS – Medicaid Formula	112
DES – Medicaid Formula	47
U's – Capital Payment	27
Other	<u>17</u>
Total	351

Spending Below Prior Year

	\$ in M
	<u>'19</u>
SFB Debt Service	(35)
<u>Loss of 1-Times</u>	
County Assistance – DJC Offset	(8)
DES – DD Prop 206 Minimum Wage	(12)
ADE IT System Support	(7)
SFB Building Repairs	(17)
Universities	(15)
State Employee Health	(25)
Other	<u>(6)</u>
Total	(125)

Total Spending Changes	\$226 M
Total Spending	\$10,041
% Change	2.3%

Cash and Structural Balance Forecast

'19 – A Structural Balance But A Cash Shortfall

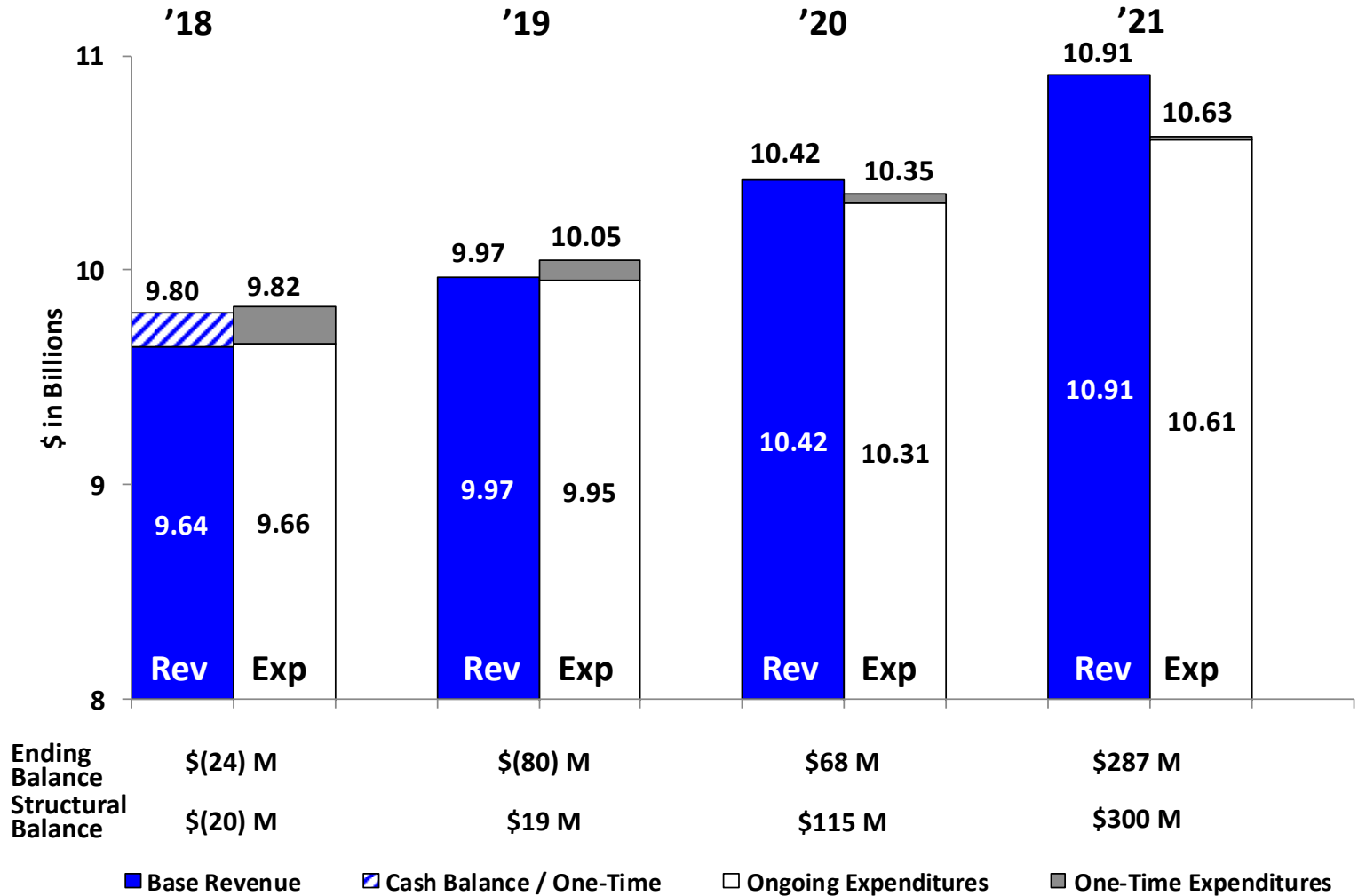
- Ongoing revenues exceed ongoing spending
- Not enough, however, to pay for \$99 M 1-time \$ — primarily SFB
- Excludes \$460 M Rainy Day Fund Balance

FY 2019 Baseline Projection

	<u>(\$ in M)</u>	
Balance Forward	\$ 0	
Ongoing Revenues	9,965	} \$19 M Structural Balance
Ongoing Spending	(9,946)	
One-Time Spending	(99)	
Cash Balance	\$ (80)	

Projected '21 Balance Grows to \$287 M

- Represents Unlikely Scenario



Projected cash shortfalls assumed to be solved as part of the budget process



Forecast Risks

- ❑ Estimates assume no discretionary changes in next 3 years
- ❑ Assumes no recession through '21; would be longest US expansion on record
- ❑ Impact of federal tax changes – could stimulate growth, but there are state conformity issues
- ❑ Federal health care changes could be revived – debate about \$ impact; likely a loss
 - In addition, state loses \$ if feds do not reimburse us for KidsCare

'18 Session Considerations

- Even if They Do Not Work as Shortfall Solutions

- ❑ Budget Stabilization Fund's \$460 M Balance
 - Could Fill '18/'19 Gap, but Hard to Depend on '21 Surplus Projection
- ❑ Drug Rebate Fund's \$70 M Balance
 - 1-time only, used \$30 M in '17
- ❑ Volkswagen \$57 M Settlement
 - Targeted emission reductions; are fund shifts possible?
- ❑ Medical Marijuana Fund's \$40 M Balance
 - Likely would require a return to the voters